

Orangerooof Canada Limited

Annual Report

1970



Orangeroo Canada Limited

CORPORATE DIRECTORY

Officers:

Harold E. Crate, F.C.A.	Chairman of the Board
Joseph P. Crothers	President
Russell A. Rule	Vice President
Alan W. Alderson	Treasurer
Harold J. Murphy, Q.C.	Secretary

Directors:

Harold E. Crate, F.C.A.
James F. Crothers
Joseph P. Crothers
Hugh A. Crothers
George W. Crothers
Frank J. Crothers
Harold J. Murphy, Q.C.
John S. Gairdner
J. Howard Hawke
W.J.R. Paton
Walter A. Keyser

Solicitors:

Garvey, Ferriss

Auditors:

Thorne, Gunn, Helliwell & Christenson

Transfer Agent and Registrar:

Canada Permanent Trust Company
Vancouver, Calgary, Toronto, Montreal, Halifax

Executive Offices:

797 Don Mills Road, Suite 605, Don Mills, Ontario
Telephone (416) 429-2898

Consultant:

Raymond W. Smith, Vice President,
International Development,
Howard Johnson Company, Boston

The Annual Meeting of Shareholders will be held
Wednesday, May 26, 1971 at 11:00 a.m. in the Prince
Edward Island Room, Royal York Hotel, Toronto.

REPORT OF THE CHAIRMAN AND PRESIDENT

To The Shareholders:

On behalf of your Board of Directors, we are pleased to report upon the progress of Orangeroot Canada Limited for the fiscal year ended December 31st, 1970 and generally for the period since incorporation on December 20th, 1968.

Measured against the economic climate in Canada which prevailed throughout 1969 and most of 1970, circumscribed as it was by tight money and retrenchment policies sponsored and supported by the federal fiscal authorities, we feel that there is reason for satisfaction in the degree of development and progress achieved by the company in the period under review. In the latter part of 1970 and to date in 1971 money supplies have greatly increased and excessive interest rates modified, so that the immediate prospects for more rapid growth are promising.

As the shareholders will readily understand, the early years of a company such as ours are largely concerned with the objectives of site selection, investigation, development, construction, and financing to the end that as many as possible productive outlets will be brought "on stream" at the earliest possible dates.

Six motor hotel sites have been acquired in principal cities, five of which are in Ontario and one in Montreal. These have been arranged either by purchase or long term land lease. Two of the hotels are now under construction: the London, Ontario, Wellington Road site and our "Flagship" at the Toronto International Airport in Toronto. The latter hotel which will include a Howard Johnson's Restaurant, Red Coach Grill and an English Pub will open in the late summer this year. Completion of the London, Ontario motor hotel is scheduled for opening before year's end.

A licensing agreement has been entered into with substantial interests in the Maritime provinces for the construction of four motor hotels with restaurants over four years. The first of these, in Moncton, N.B., is largely completed and will open for business in May or June of this year.

Four free standing restaurant sites have been acquired to date, on two of which restaurants have now been opened. One of these, on St. Catherine Street West, Montreal was opened last August under a licence agreement and its results have been most satisfactory. The other at 3757 Keele Street, Toronto is company operated and was successfully launched on March 30th last. The remaining two locations are in high density areas of Toronto and are likely to be opened before the end of this year.

During 1970, the company obtained the exclusive manufacturing and distributing rights for Canada for

Howard Johnson's Ice Cream. Under this licence, we will manufacture the product, not only for our own restaurants but also for retail distribution through the food chains. At present the ice cream is being sold by many of the Southern Ontario outlets of Dominion Stores, Steinberg's Miracle Marts and IGA and by a food chain in Montreal. We are fortunate, indeed, to have the services of Mr. Fred Scott in charge of our ice cream operations. Mr. Scott joined our company after 30 years of experience in charge of ice cream production with Howard Johnson Company in the United States. Our efforts to expand our outlets are, of course, continuing vigorously. Our manufacturing facilities are located in Welland, Ontario, and in Granby, Quebec.

The financial position of the company at December 31st, 1970 and the results of operations for the year then ended are shown on the appended financial statements together with the report of the company's auditors thereon. The accompanying notes offer comprehensive explanations of various items in the Balance Sheet and Income Statement. A perusal of this information will reveal that during 1970, 9½% Convertible Sinking Fund Debentures were issued for cash in the amount of \$2,000,000 and a commitment has been received for an additional \$1,000,000 to be subscribed by the same purchaser, to be taken down by June 30th, 1971. In addition to this financing, 400,000 Class B common shares were issued to the public in April 1970 for a cash consideration of \$2,000,000. It will also be observed in the Statement of Income that costs and expenses plus depreciation and amortization exceeded revenue for the year by \$345,727. This net loss amounted to 17¢ per share on the outstanding capital.

Since December 31st, 1970, Mr. H.J. Keenan has resigned as President and as a Director of the company. Mr. Joseph P. Crothers has been appointed as President and brings to this office many years of experience in administration, not only of hotel operations but of other commercial and industrial enterprises.

May we express our thanks also to our administrative and technical staff and to our shareholders and customers for their continuing loyalty and enthusiasm.

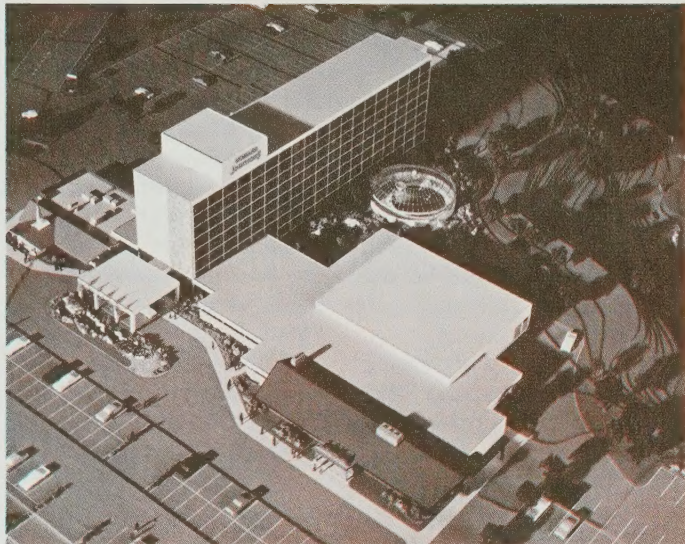
Respectfully submitted on behalf of the Board,

Harold E. Crate
Chairman

Joseph P. Crothers
President

Toronto, Ontario
April 27, 1971

Orangeroot Canada Limited



Howard Johnson's Hotel and Restaurant,
Toronto International Airport



Howard Johnson's Restaurant
3757 Keele Street, Toronto



Howard Johnson's Restaurant
710 St. Catherine St. W., Montreal

OPERATIONS:

Howard Johnson's Restaurant
710 St. Catherine Street West
Montreal, Quebec
Seating capacity 160
Under licence to Spiro T. Gavaris

Howard Johnson's Restaurant
3757 Keele St. (Just south of Finch Ave.)
Toronto, Ontario
Seating capacity 140
Company operated

UNDER CONSTRUCTION:

Howard Johnson's Motor Lodge/Restaurant
Route 126 and Trans-Canada Highway
Moncton, N.B.
96 rooms, Howard Johnson's Restaurant
conference facilities, cocktail lounge,
swimming pool and sauna
Under licence to Atpro Holdings Ltd.

Howard Johnson's Hotel and Restaurant
801 Dixon Road
(near Toronto International Airport)
Toronto, Ontario
259 rooms, Howard Johnson's Restaurant,
Red Coach Grill, English Pub, conference facilities,
swimming pool and sauna
Opening date: summer 1971
Company operated

Howard Johnson's Restaurant
291 Yonge Street (at Dundas)
Toronto, Ontario
Seating capacity 175
Company operated

Howard Johnson's Restaurant
1507 Yonge Street (at St. Clair)
Toronto, Ontario
Seating capacity 251
Company operated

Howard Johnson's Motor Lodge/Restaurant
Wellington Road South,
London, Ontario
120 rooms, Howard Johnson's Restaurant,
Pub, conference facilities,
swimming pool and sauna
Company operated

Orangerooof Canada Limited

THE HOWARD JOHNSON COMPANY

The Howard Johnson Company was founded over forty years ago by Howard D. Johnson, a Massachusetts businessman who had developed his own formula for making ice cream. The company's first retail outlet was an ice cream stand located in Wollaston, Massachusetts, which opened in 1925. Shortly thereafter, the first franchising agreement was made with a local businessman who opened a restaurant using Howard Johnson's name.

From this modest beginning, the company gradually expanded throughout New England and the Mid-Atlantic States until its restaurants with the easily identifiable orange roof became virtual landmarks along many of the first turnpikes and expressways of those areas. Eventually the restaurants, and later motor lodges, were to be found in the south, and more recently have been constructed on the west coast. The first Howard Johnson's Motor Lodge opened in Savannah, Georgia in 1954.

In addition to the moderately priced restaurants and motor lodges, the company has also developed a chain of luxury restaurants known as Red Coach Grills and fast food operations known as Picnic Baskets.

Howard Johnson's is expanding into international markets in collaboration with business groups in other countries. The company has recently appointed two members of its top management team to positions in which they will devote their full time to international development.

Much of the success of the company can be attributed to its policy of franchising and central food processing, areas in which the founder pioneered.

Howard Johnson's today is still most famous for its "28 flavours" (there are actually many more) of ice cream, its orange roof and its seafood, particularly fried clams. In addition to operating one of the largest restaurant and hotel chains in the world (900 restaurants and 430 motor lodges), the company is also a manufacturer and processor of pre-packaged food products for the home sold in retail stores, and a supplier to its restaurants and motor lodges. It is a publicly owned corporation with shares listed on the New York Stock Exchange. Sales in 1970 amounted to \$292 million, up from \$268 million in 1969. Net income rose to \$11.4 million from \$9.0 million in the previous year.



HOWARD JOHNSON'S IN CANADA ORANGEROOF CANADA LIMITED

Orangerooof Canada Limited, a Canadian company, controlled by Canadians, has acquired exclusive rights from the Howard Johnson Company to build, own, operate and license Howard Johnson's Restaurants and Motor Lodges throughout Canada. Orangerooof also has the right to distribute any Howard Johnson's products which may be manufactured in Canada. Since the completion of the master agreement, Orangerooof has in addition acquired exclusive rights to manufacture and sell Howard Johnson's Ice Cream in Canada.

The Master Licence requires that the Canadian company directly or through its sub-licencees, build 40 motor lodge/restaurant combinations during the primary license period ending December 31, 1989. It stipulates that three such facilities are to be in operation by December 31, 1971, and a further seven by December 31, 1973. Provision is made for delays arising from conditions beyond the company's control. There is no requirement regarding the number of free standing restaurants to be constructed. Of the 40 motor lodge/restaurant combinations, no more than 26 may be sub-licensed.

The Howard Johnson Company has no equity interest in Orangerooof. The company has been paid a Master Licence fee of \$250,000 by Orangerooof. The same sum will be payable in the year 1989 upon the exercise of the first renewal right and again in 1999 upon the exercise of the second renewal right.

A continuing royalty fee is payable annually by Orangerooof. This fee is a minimum of \$50,000 in 1969 and 1970, and a minimum of \$75,000 thereafter.

The agreement includes the right to use the "Howard Johnson's" name and all identifying features such as the orange tile roof and blue cupola. In all respects Canadian Howard Johnson's will be indistinguishable from their American counterparts. Only the corporate name "Orangerooof Canada Limited" is different.

CONSOLIDATED BALANCE SHEET

(with comparative figures)

ASSETS	1970	1969
CURRENT ASSETS		
Cash and bank deposit receipts	\$4,090,200	\$1,736,031
Accounts receivable	45,323	6,452
Inventories, at the lower of cost and net realizable value	24,763	
Deposits	26,600	
Prepaid expenses	17,627	3,096
	<u>4,204,513</u>	<u>1,745,579</u>
FIXED ASSETS (note 2)		
Land, equipment and leasehold improvements, at cost	835,011	218,498
Less accumulated depreciation and amortization	15,204	4,527
	<u>819,807</u>	<u>213,971</u>
LODGES AND RESTAURANTS UNDER CONSTRUCTION (note 3)	<u>1,770,450</u>	
PRELIMINARY COSTS ON PROPOSED BUILDINGS	<u>140,573</u>	<u>5,928</u>
OTHER ASSETS		
Land options and purchase deposits (note 4)	2,000	60,000
Licences, at cost less amortization (note 5)	504,400	266,700
Deferred mortgage and debenture issue expenses (note 6)	86,553	
Incorporation expense		7,575
	<u>592,953</u>	<u>334,275</u>
	<u>\$7,528,296</u>	<u>\$2,299,753</u>

Approved by the Board:

H.E. Crate, Director
J.P. Crothers, DirectorTo the Shareholders of
ORANGEROOF CANADA LIMITED

We have examined the consolidated balance sheet of Orangeroo Canada Limited and subsidiary company as at December 31, 1970 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada
February 17, 1971

AUD

September 31, 1969)

PORT

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Orangeroo Canada Limited

and subsidiary company

CONSOLIDATED STATEMENT OF INCOME

year ended December 31, 1970

(with comparative figures from incorporation on
December 20, 1968 to December 31, 1969)

	1970	1969
Revenue		
Sales	\$ 22,345	
Interest	192,890	\$ 80,460
Licensing and royalties	79,799	
Sundry	595	
	<u>295,629</u>	<u>80,460</u>
Costs and expenses before the undernoted	605,844	394,842
Amortization of licences	19,800	13,297
Depreciation and amortization	10,677	4,527
Interest expense (including interest on long-term liabilities in 1970 of \$520)	5,035	2,340
	<u>641,356</u>	<u>415,006</u>
Loss for the period	<u>\$345,727</u>	<u>\$334,546</u>
Loss per Class A and Class B common shares	<u>17¢</u>	<u>24¢</u>

CONSOLIDATED STATEMENT OF DEFICIT

year ended December 31, 1970

(with comparative figures from incorporation on
December 20, 1968 to December 31, 1969)

	1970	1969
Deficit at beginning of period	\$334,546	
Loss for the period	345,727	\$334,546
Incorporation expenses	7,575	
Expenses incurred on issue of 400,000 Class B common shares	40,871	
Deficit at end of period	<u>\$728,719</u>	<u>\$334,546</u>

Orangeroof Canada Limited

and subsidiary company

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

year ended December 31, 1970

(with comparative figures from incorporation on
December 20, 1968 to December 31, 1969)

	1970	1969
Source of funds		
Issue of 9½% convertible sinking fund debentures Series A	\$2,000,000	
Other long-term liabilities assumed	497,391	
Issue of shares	<u>2,000,000</u>	<u>\$2,300,003</u>
	<u>4,497,391</u>	<u>2,300,003</u>
Application of funds		
Loss for the period	345,727	334,546
Items not involving current funds		
Depreciation and amortization	(10,677)	(4,527)
Amortization of licences	<u>(19,800)</u>	<u>(13,297)</u>
	315,250	316,722
Additions to fixed assets less in 1970 deposit of \$60,000 paid in previous year	556,513	218,498
Lodges and restaurants under construction	1,770,450	
Land options and purchase deposits	2,000	60,000
Preliminary costs on proposed buildings	134,645	5,928
Ice cream licence fee	257,500	
Master licence		10,000
Deferred mortgage and debenture issue expenses	86,553	
Expenses on issue of class B common shares	40,871	
Principal due within one year on long-term liabilities	75,000	
Incorporation expense	<u>3,238,782</u>	<u>7,575</u>
		<u>618,723</u>
Increase in working capital	1,258,609	1,681,280
Working capital at beginning of period	<u>1,681,280</u>	
Working capital at end of period	<u>\$2,939,889</u>	<u>\$1,681,280</u>

Orangeroo Canada Limited

and subsidiary company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1970

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the wholly owned subsidiary, Orange Roof Enterprises Limited.

2. FIXED ASSETS

	1970			1969
	Cost	Accumulated depreciation and amortization	Net	Net
Land	\$779,091		\$779,091	\$197,897
Furniture and equipment	36,500	\$ 8,304	28,196	14,776
Leasehold improvements	19,420	6,900	12,520	1,298
	<u>\$835,011</u>	<u>\$15,204</u>	<u>\$819,807</u>	<u>\$213,971</u>

For accounting purposes, depreciation and amortization are computed on a straight-line basis as follows; furniture and equipment at 10% per annum and leasehold improvements over the term of the lease.

3. LODGES AND RESTAURANTS UNDER CONSTRUCTION

The company follows the policy of capitalizing, as part of the cost of lodges and restaurants under construction, certain applicable costs such as realty taxes, rent on leased properties, interest, etc. The amounts so capitalized in 1970 was \$41,713.

The estimated cost to complete the buildings under construction is \$3,800,000.

4. LAND OPTIONS AND PURCHASE DEPOSITS

The company has an option to purchase land which expires March 31, 1971. If exercised, the option will require maximum additional payments of \$158,000. The company has the right to renew the option for a further six months on payment of \$3,000.

5. LICENCES

	1970	1969
Master Licence	\$253,500	\$266,700
Ice Cream Licence	250,900	
	<u>\$504,400</u>	<u>\$266,700</u>

Under the Master Licence the company has the exclusive right to operate and license others to operate Howard Johnson's lodges, restaurants and Red Coach Grills in Canada. The Ice Cream Licence, which was obtained on June 4, 1970, grants the company the exclusive right to manufacture and sell Howard Johnson's ice cream in Canada. The cost of the Ice Cream Licence was \$257,500, of which \$51,500 has been paid with the balance payable in equal annual instalments 1972 to 1975 inclusive.

The licences expire on December 31, 1989, but provide for two additional ten year renewal periods on payment of stipulated renewal fees. Both licences provide for percentage royalties with the Master Licence having a minimum royalty of \$75,000 in each of the remaining years of the initial term. The company is obligated to ensure that no less than 40 Howard Johnson's combination restaurants and motor lodges are operating by December 31, 1989.

The cost of both licences is being amortized over the period ending December 31, 1989.

6. DEFERRED MORTGAGE AND DEBENTURE ISSUE EXPENSES

The company intends to amortize these expenses over the life of the respective debt issues.

7. LONG-TERM LIABILITIES

9½% Convertible sinking fund debentures Series A, maturing 1985	\$2,000,000
7% First mortgage payable, maturing 1979	151,037
9% Second mortgage, payable \$75,000 in 1971 and \$65,354 in 1972	140,354
Due to Howard Johnson Company, payable \$51,500 annually 1972 to 1975 (note 5)	206,000
	<u>2,497,391</u>
Less principal included in current liabilities	<u>75,000</u>
	<u>\$2,422,391</u>

The 9½% convertible sinking fund debentures series A which are secured by a first floating charge on all the undertakings of the company, call for annual sinking fund instalments of \$200,000 to commence in 1976, and can be redeemed otherwise than out of sinking fund monies at decreasing premiums commencing in 1977. The debentures are convertible into class B common shares of the company at \$6.00 per share prior to 1981 and thereafter at \$7.50 per share to maturity (see note 8).

Under the terms of the Trust Indenture securing the series A debentures, the company has agreed not to pay dividends on its common shares if the retained earnings are less than \$1,000,000 or if more than 50% of the series A debentures are outstanding.

The holder of the existing series A debentures is committed to purchase by June 30, 1971 an additional \$1,000,000 of these debentures, containing identical terms.

8. CAPITAL STOCK

The Class A and Class B common shares have the following rights:

- (a) The Class A shares are entitled to 10 votes per share; the Class B shares are entitled to 1 vote per share.
- (b) Class A shares may be converted into Class B shares at any time on the basis of one Class B share for each Class A share. 1,400,000 Class B shares are reserved for issuance upon the conversion of Class A shares. If 90% of the Class A shares are converted into Class B shares, then at the company's option all the remaining Class A shares may, at any time and from time to time, be converted into Class B shares.
- (c) In all other respects, the Class A and Class B shares have equal rights.

On April 16, 1970, the company issued from treasury 400,000 Class B common shares for \$2,000,000 cash. Under the terms of the 9½% convertible sinking fund debentures series A, the company has reserved 333,333 class B common shares.

9. LONG-TERM LEASES

The company has entered into long-term leases on land and buildings for periods varying from ten to forty years. These leases provide for minimum annual rentals of approximately \$295,000 and aggregate minimum rentals over the remaining terms of the leases of approximately \$6,600,000.

The leases contain options to renew.

10. OTHER STATUTORY INFORMATION

Remuneration of directors and officers was as follows:

	<u>1970</u>	<u>1969</u>
Directors	\$28,650	\$11,600
Officers	81,739	71,181

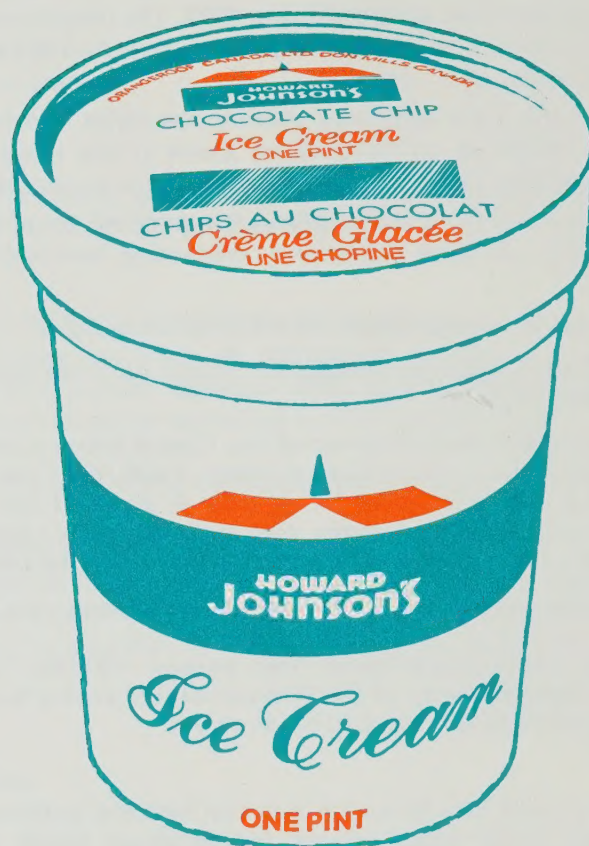
There are 11 directors (1969, 10 directors) and 5 officers (1969, 3 officers). During 1970, 2 officers (1969, 1 officer) were also directors.

11. COMPARATIVE FIGURES

The 1969 figures have been reclassified on the basis of the 1970 financial statement presentation.

12. SUBSEQUENT EVENT

Subsequent to December 31, 1970, the company has commenced construction at London, Ontario on a motor lodge and restaurant at a contract price of \$1,900,702.



PEPPERMINT STICK	PISTACHIO
COCOANUT	MAPLE WALNUT
BURGUNDY CHERRY	BUTTER PECAN
SWISS CHOCOLATE ALMOND	BUTTER CRUNCH
CARAMEL FUDGE	MINT CHIP
PEACH	APPLE STRUDEL
FUDGE RIPPLE	MOCHA CHIP
BLACK RASPBERRY	CAKE ROLL
ORANGE PINEAPPLE	COFFEE BRANDY
VANILLA	BUTTERSCOTCH
CHOCOLATE	LEMON SHERBET
STRAWBERRY	LIME SHERBET
CHOCOLATE CHIP	ORANGE SHERBET
COFFEE	RASPBERRY SHERBET

NOW IN CANADA